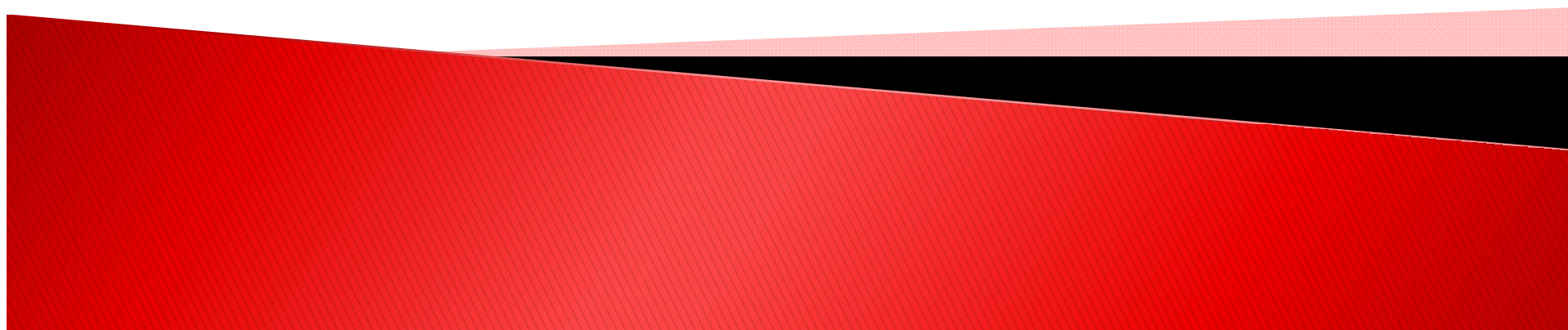


# California Carbon Cap And Trade Overview

Prepared by  
BGC Environmental Brokerage Services

June 2013



# BGC Partners, Inc.



- ▶ BGC Partners, Inc. (NASDAQ: BGCP) is a leading global intermediary to the wholesale financial markets
- ▶ Originally part of Cantor Fitzgerald, BGC split off in 2004
- ▶ On April 1, 2008, BGC merged with eSpeed and became BGC Partners, Inc.
- ▶ With 1,800 brokers, 24 offices worldwide, BGC conducts over \$200 trillion in notional transactions annually
- ▶ Revenue in 2010 was just over \$1.3B
- ▶ Currently investment grade credit rating
- ▶ Recently acquired real estate brokerage firms Newmark Knight Frank and Grubb & Ellis.

# BGC Environmental Brokerage Services (BGC EBS)

- ▶ BGC launches Environmental Brokerage Services division in July 2011
- ▶ BGC EBS Acquires CantorCO2e's North American business & grows to a dozen employees with offices in New York, San Francisco, Los Angeles
- ▶ BGC EBS focuses on emissions, alternative energy and emerging environmental product markets
- ▶ Named Top ERC Broker in Environmental Finance Survey in 2011
- ▶ Environmental markets  
BGC EBS brokers:
  - Carbon (compliance & voluntary, US & International)
  - Renewable Energy Markets
  - EPA NOx & SO2 markets
  - Regional Cap & Trade Programs (i.e. RECLAIM & HGB)
  - US ERC Markets
  - Mobile Source Markets (EPA Act, MSERCs, Rule 2202 & ZEVs/PZEVs)
  - US Water Markets

# BGC Scope of Services

- ▶ We introduce buyers and sellers and provide clearing and settlement services.
  - Including Bilateral Contracts
  - Exchange Cleared Products
- ▶ We assist our clients throughout the transactional process making sure everything is properly taken care of from introduction to negotiation to ensure quick and successful trade completion.
- ▶ We provide our clients with accurate and timely information about the regulatory happenings, market prices, trends and potential future prices.
- ▶ We require all of our customers to submit a W-9 prior to execution of a transaction to run our “Know Your Customer” checks.
- ▶ We do not take principal positions.

# Who's in & When?

- ▶ **Phases:**

  - 2013–2015 Phase I: Facilities, First Deliverers of Electricity & CO2 Suppliers

  - 2015–2020 Phase II: Fuel Suppliers: Natural Gas, RBOB, Oils, Petroleum

- ▶ **Compliance Periods:**

  - CP1: 2013–2014

  - CP2: 2015–2017

  - CP3: 2018–2020

- ▶ **Threshold for Covered Entities:**

  - For covered sectors as of 2013:

    - No Threshold for Electricity–Importers from Unspecified Sources

    - +25K metric tons in any year 2008–2012 inclusion starting 2013

    - +25K metric tons in any year 2013 and beyond inclusion in that year

  - For covered sectors as of 2015:

    - No Threshold for Electricity–Importers from Specified Sources

    - +25K metric tons in any year 2011–2014 inclusion starting in 2015

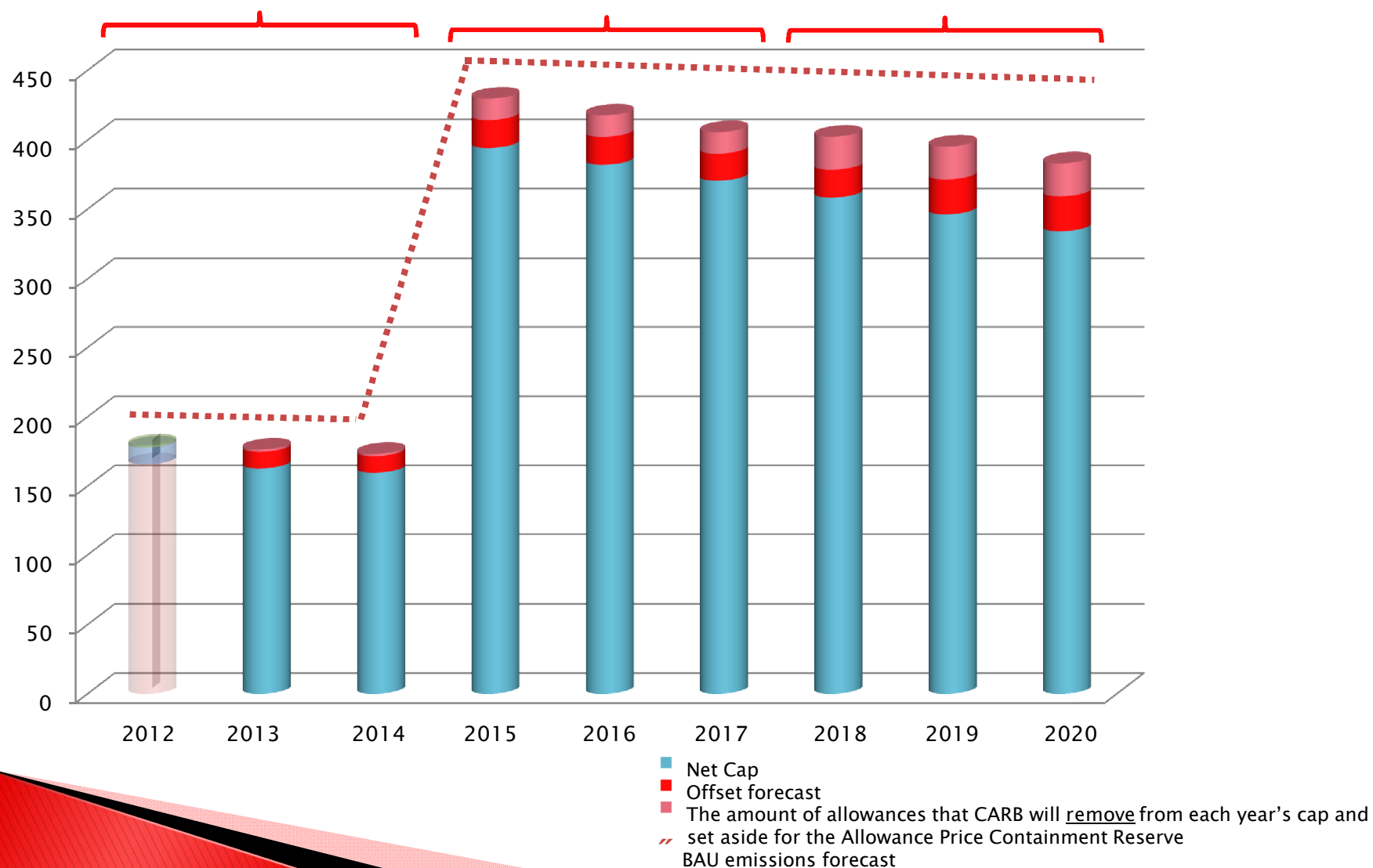
    - +25K metric tons in any year 2015 and beyond inclusion in that year

- ▶ **Registration Deadlines:**

  - Future Covered Entities: Facility must register within 30 calendar days of the reporting deadline contained in MRR (registration deadline: 5/10/12 for Facility Operator/Fuel Supplier & 7/1/12 for Electric Power)

  - Voluntary Opt-In 11/30

# AB32: Visually

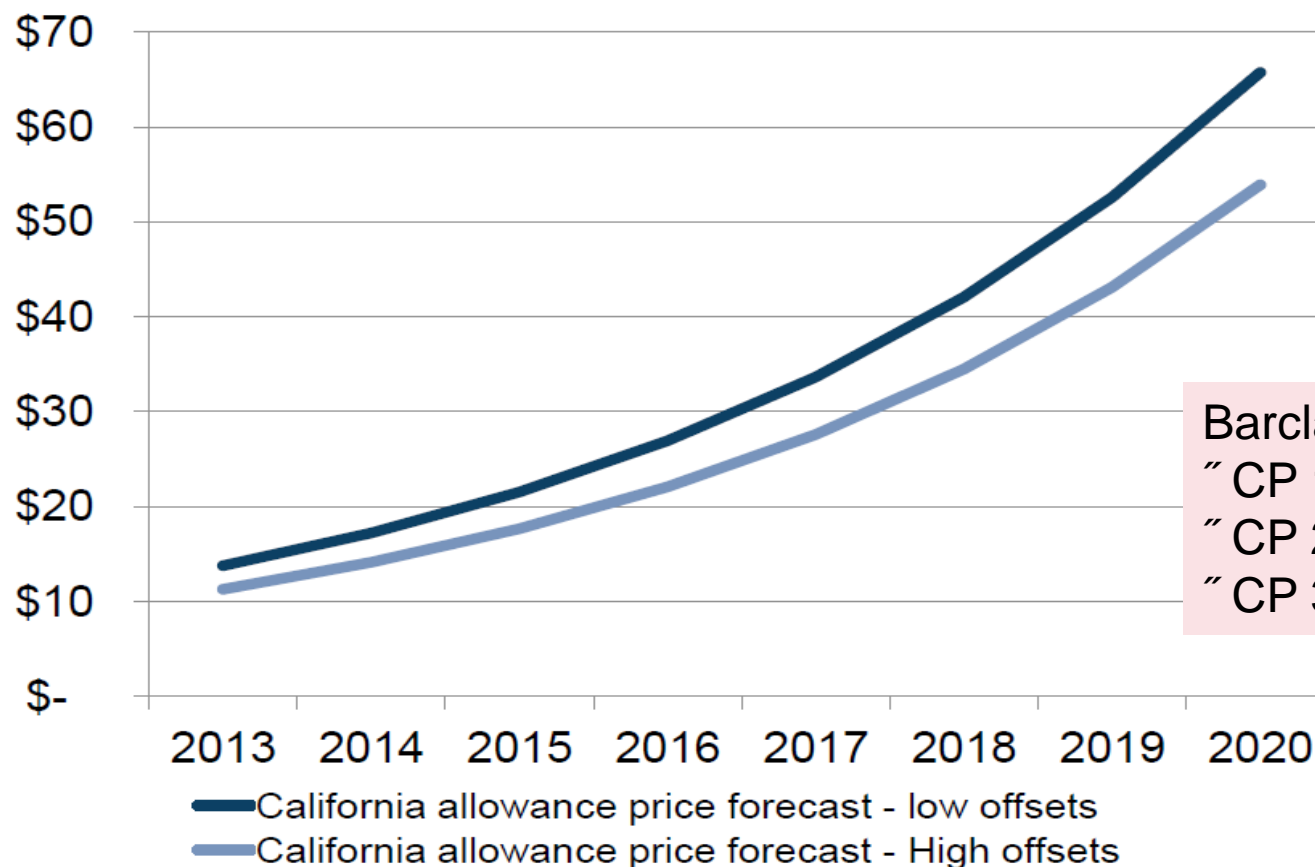


# What's Trading?

- ▶ California Carbon Allowances (CCAs)
  - Auctions
  - Exchange Cleared
  - California Allowance Forward Trade Agreement (CAFTA)
  - Bilateral
  
- ▶ CARB Carbon Offsets (CCOs)
  - California Offset Forward Trade Agreement (COFTA)
  - Bilateral
  
- ▶ Non-Guaranteed Offsets (existing and potential CARB protocols)
  - Bilateral



# Allowance Price Projections (excluding Quebec demand)



Barclays Capital:

" CP 1: \$14/t

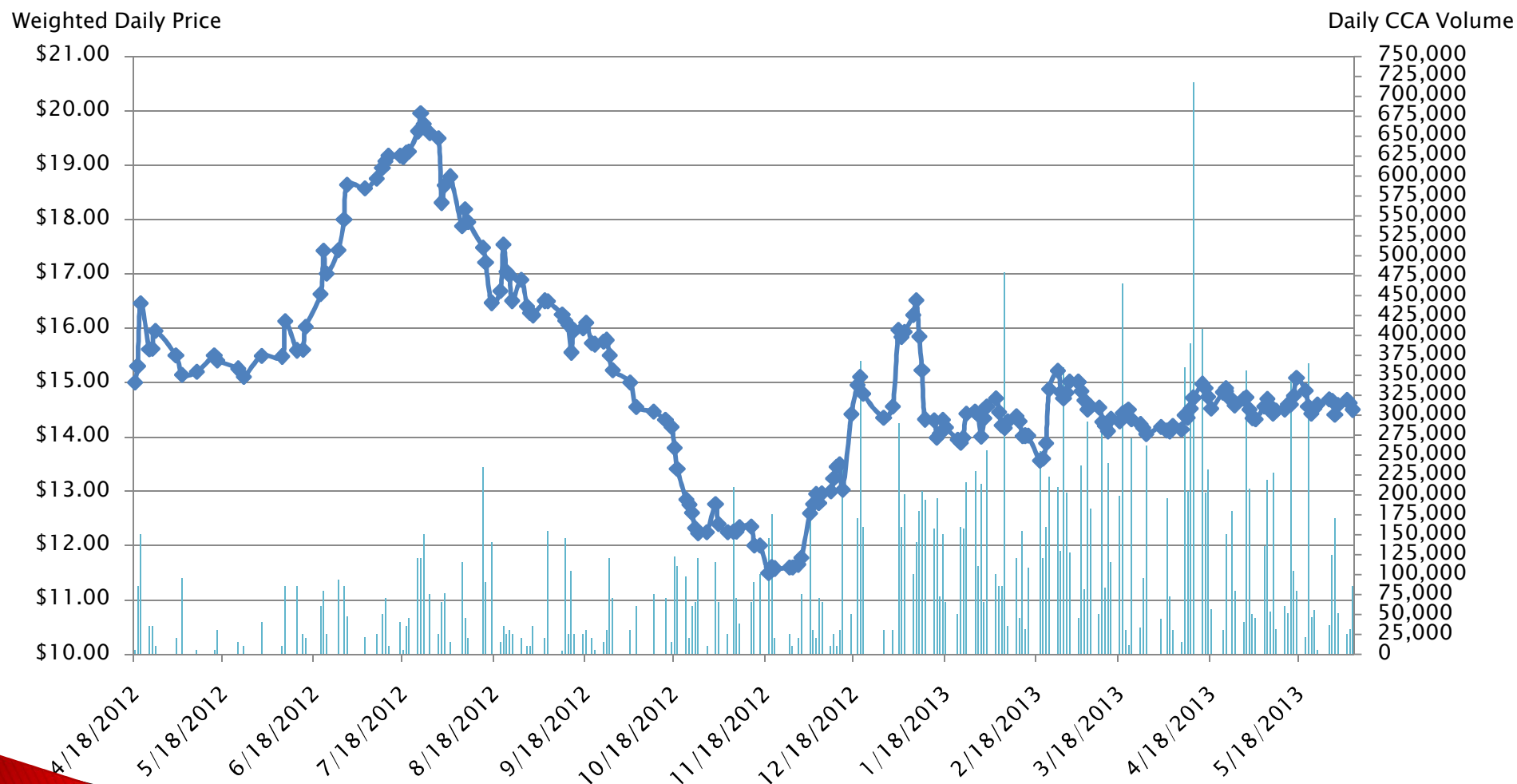
" CP 2: \$36/t -> \$26/t

" CP 3: \$68/t -> \$49/t

Chart Source: Thompson Reuters/Point Carbon graphic 10/2011



# CCA V13 DEC13 Futures Pricing



# Carbon Offset Rules

- ▶ Real, additional, quantifiable, permanent, verifiable and enforceable
- ▶ 8% Limit
- ▶ Credit Periods:
  - ” Non Sequestration 7–10 years
  - ” Sequestration 10–30 years
  - ” Must be within US (plus territories, Canada, or Mexico)
- ▶ Offset Projects Using ARB Compliance Offset Protocols
  - ” Commencement after December 31, 2006
  - ” ODS, Livestock, Urban Forest, US Forest Projects
    - ” Early Action Offset Project Crediting 1/1/2005 to 12/31/2014, listed or registered pre 1/1/2014
- ▶ Potential new offset credits
  - Coal Mine Methane
  - Fertilizer Management
  - Rice Management

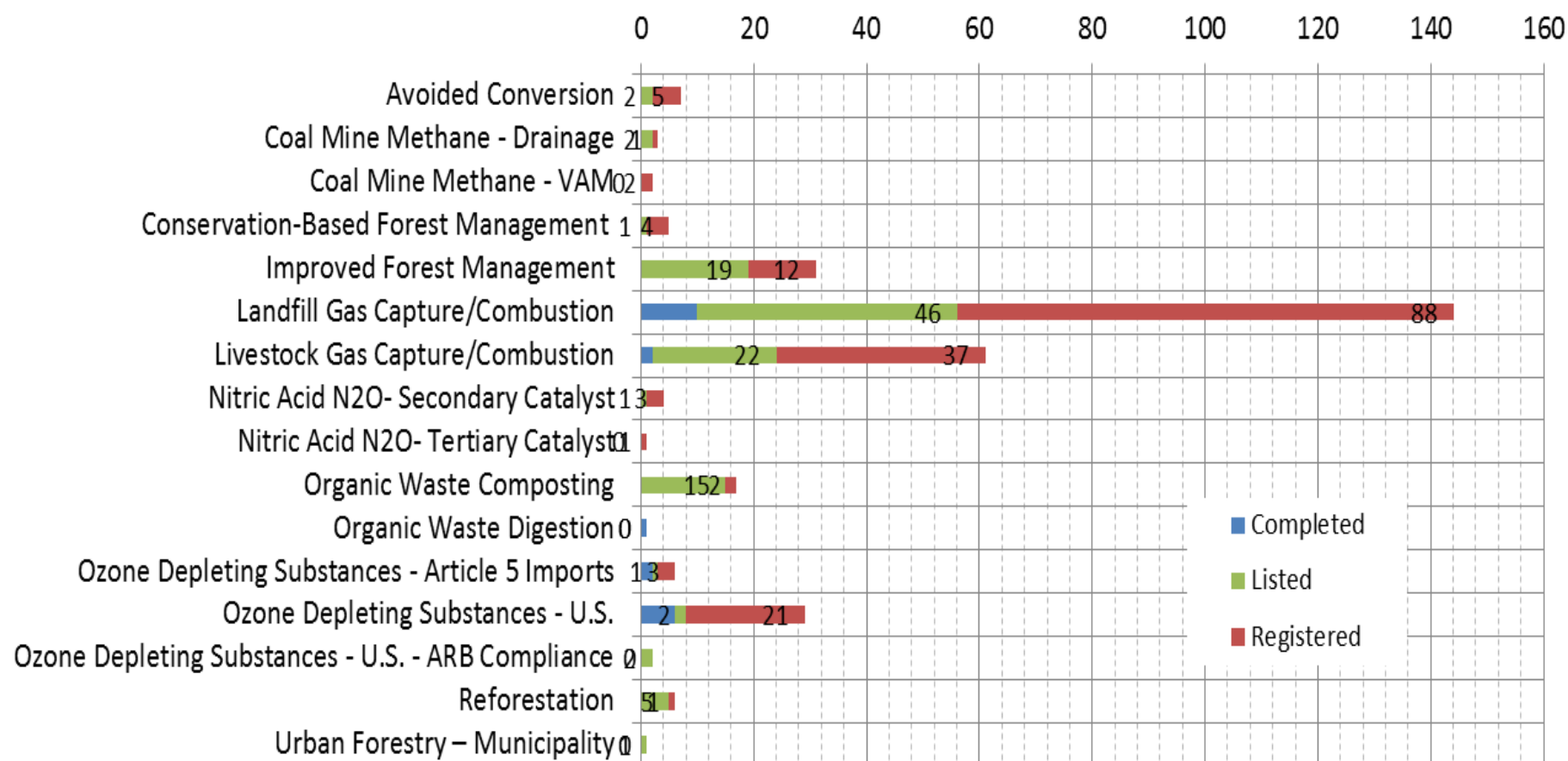
# California Carbon Market

## (excluding Quebec Compliance demand)

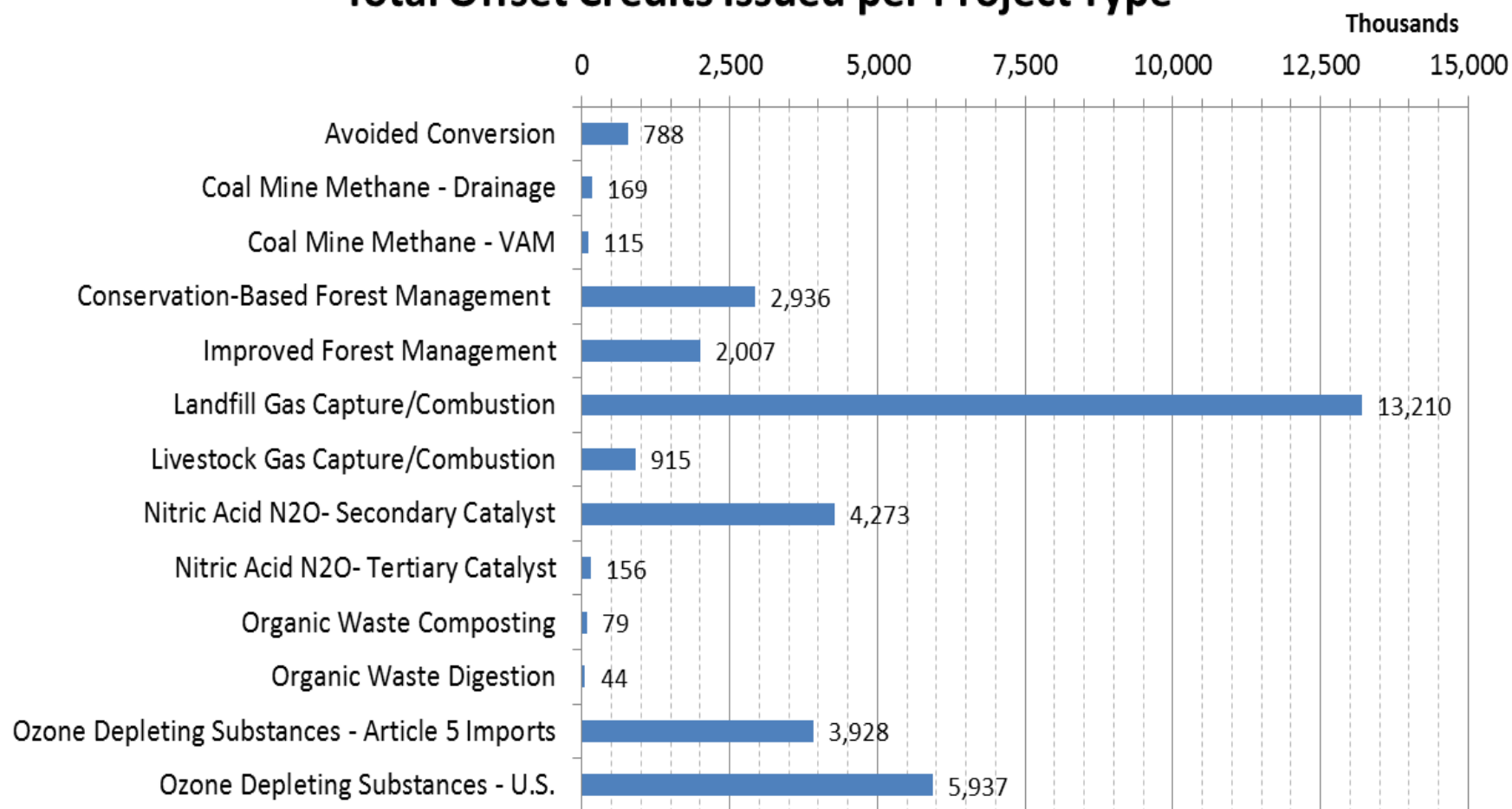
Compliance Period	Year	Allowance Budget (mt CO <sub>2</sub> e)	Potential Total Offset Demand
First Narrow Scope	2013	162,800,000	26,800,000
	2014	159,700,000	
Second Broad Scope	2015	394,500,000	91,784,000
	2016	382,400,000	
	2017	370,400,000	
Third	2018	358,300,000	83,104,000
	2019	346,300,000	
	2020	334,200,000	

\*Data from Climate Action Reserve

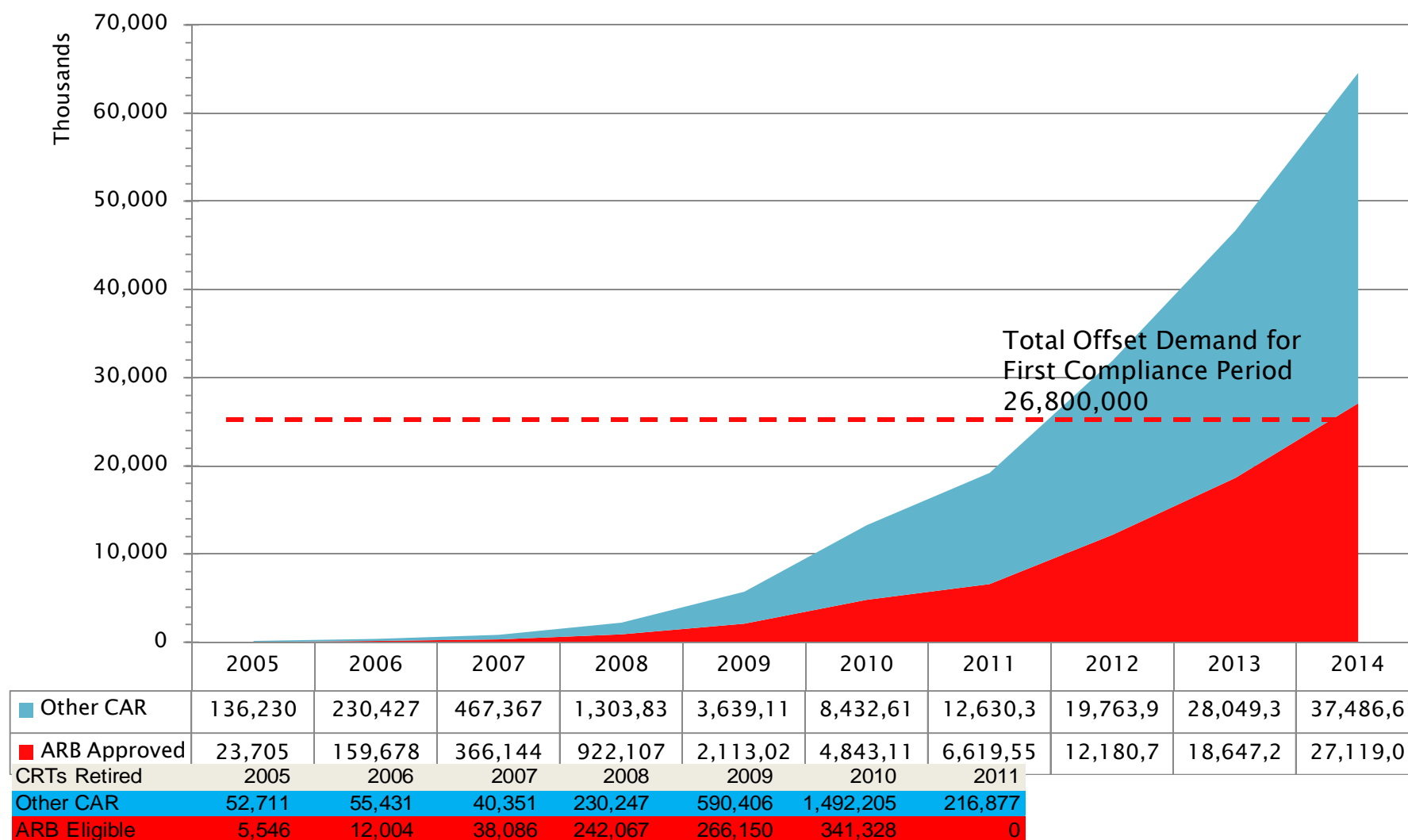
## Number of Offset Projects per Project Type and Stage



## Total Offset Credits Issued per Project Type



# Cumulative CRTs Issued and Estimated for ARB and Other



# Offset Contracts

- ▶ **Guaranteed CARB Offset at delivery**
  - **COFTA (California Offset Forward Trade Agreement)**
    - “ Designed by Barclays Capital sanctioned by ISDA
    - “ Any Vintage 2006–2013 delivery December 2013
    - “ Buyer assumes liability
    - “ Program Delay: one year roll
    - “ Tear up provision in the event the program abandoned
    - “ Buyer liability at time of delivery
  - **COFTA with Additional Guarantee**
    - “ Seller assumes liability until November 1, 2015
  - **COFTA (3)**
    - Seller double verifies credits and limits invalidation to risk 3 years
  - **COFTA Guaranteed with a CCA**
    - Seller will deliver a CCA if the underlying Offset is invalidated
  - **Bilateral Negotiated Contracts**
    - CRT/CCO – Prepayment Contract
- ▶ **Non–Guaranteed Offsets/Bilateral Negotiated Contracts**
  - Specifications are negotiable



# Market Pricing as of 6/6/13

- ▶ CCAs:
  - V13 Spot \$14.50–\$14.70/CCA
  - V13 JUN13 Futures \$14.25–\$14.45/CCA
  - V13 DEC13 Futures \$14.40–\$14.60/CCA
  - V14 DEC14 Futures \$14.50–\$15.00/CCA
  - V15 DEC15 Futures \$13.00–\$14.00/CCA
- ▶ Guaranteed CCOs:
  - CCO backed by CCA (Dec 13) –22% vs. –12% (Index Based)
  - CCO backed by CCO \$10.75–\$11.75/CCO
  - CCO (Dec 13) \$9.50–\$10.50/CCO
- ▶ Non-Guaranteed Offset Credits:
  - ODS CRT: \$7.25–\$8.85/CRT
  - AG CRT: \$7.25–\$8.85/CRT
  - CAR v3.x FRST \$7.00–\$8.75/CRT

# BGC Contact Info

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